



HOUSE BUDGET COMMITTEE

Democratic Caucus

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Budget in Brief: Bush Budget Cuts Services for Small Businesses

Budget Increases Cost of Small Business Loans — For 2005, the budget zeroes out subsidy funding for Section 7(a) general business guaranteed loans, a program run by the Small Business Administration (SBA). While the budget provides a total Section 7(a) loan volume of \$12.5 billion — a \$3 billion increase from 2004 — it eliminates federal funding and assumes instead that the program will be funded entirely through a sharp increase in loan fees. This will raise costs for small businesses.

Budget Eliminates a Variety of Other Aid to Small Businesses — The budget's 2005 funding for the SBA is \$678 million, which is \$77 million, or 10.2 percent, below the 2004 enacted level. In addition to loan programs, the SBA runs a number of activities such as business information centers, women's business centers, and technical assistance to help entrepreneurs. The budget provides a total of \$112 million for these activities in 2005, a \$30 million reduction from the 2004 level. Within the total, the budget eliminates funding for several activities, including microenterprise technical assistance, the New Market Venture Capital program, and Native American outreach.

Administration Walks Away from the Manufacturing Extension Partnership — The Administration in January released a comprehensive strategy for boosting the American manufacturing sector, citing its support of a "newly coordinated Manufacturing Extension Partnership" as part of that strategy. The budget provides \$39 million for the Manufacturing Extension Partnership, which maintains last year's steep cut from the 2003 level of \$106 million. The program, which also receives state, local, and private funding, provides information and consulting services to help small businesses adopt advanced manufacturing technologies and business practices that will help them compete in a global market.

Despite Administration Claims, Small Businesses Gain Little From Top-End Tax Cuts — The President claims that reducing the top income tax rate benefits small businesses and helps create jobs. In reality, less than two percent of small businesses pay income taxes at the highest tax rate. In 2003, the President claimed that 23 million small business owners would receive tax cuts averaging \$2,042 that year under his tax plan. In reality, the average was greatly inflated by huge tax cuts going to a handful of taxpayers. More than half of taxpayers with small business income were estimated to receive a tax cut of \$500 or less. In the long run, the preferential tax treatment of dividends in the President's plan and the increase in the deficit associated with trillion-dollar tax cuts are likely to drive up interest rates. This in turn will make it more expensive for small businesses to borrow money.